AR49

File

MDS Health Group Limited

ANNUAL REPORT 1976

MDS HEALTH GROUP LIMITED – dedicated to helping the health professions care for people.

The Year in Review

	1976	1975	Percentage Change
Revenues	$21,534,000	$20,158,000	+ 6.8%
Depreciation	395,000	354,000	+11.6%
Income taxes	936,000	1,005,000	– 6.9%
Net income (Before extraordinary items)	1,042,000	1,006,000	+ 3.6%
Net Earnings per common share (Before extraordinary items)	$ .60*	$ .46	+30.4%
Total assets employed	10,576,000	11,469,000	– 7.8%
Shareholders' equity	5,443,000	5,616,000	– 3.1%
Dividends per common share	$ .10	–	–

*Fewer shares outstanding in 1976.

Report to the Shareholders

Fiscal 1976 was a year of continued economic progress for your Company. It was also a year of change in the regulations concerning the method of operation of medical laboratories in Ontario. These changes were overdue and will ultimately benefit MDS, but in all likelihood will have a short term negative effect on the revenues and earnings of the laboratory division. While gross revenues of $21,534,000 were 7% over fiscal 1975 and net income of $1,042,000 (before extraordinary items) was up 4%, income of $1,919,000 (before taxes, minority interest and extraordinary items) was actually 4% below the previous fiscal year. This decrease was most dramatic in the fourth quarter when income, before taxes and minority interest, was 29% lower than the corresponding period in the previous year. The lower fourth quarter earnings were primarily the result of laboratory fees payable by the Ontario Health Insurance Plan not being increased in May, 1976 to compensate for increased costs and were further affected by lower laboratory usage in the quarter. The lower earnings of the laboratory division were partially offset by improvements in other divisions.

During the year there was considerable unfavourable publicity related to certain Ontario laboratory operators and physicians being involved in unethical practices. While MDS and the majority of laboratory operators are not involved with such matters, the unethical actions of some laboratories have affected the attitude of Ministry of Health officials to laboratories generally. The Ontario Association of Medical Laboratories, of which MDS is a founding member, had made specific recommendations to the Ministry of Health which dealt with control of some of these unethical practices. It is unfortunate that these were not implemented at an earlier date.

MDS supports the Ministry in its efforts to improve quality, eliminate unethical laboratories and control the utilization of laboratory services. MDS, operating as a private laboratory, provides convenient, high quality laboratory service for over one million Ontario patients each year with a service level and cost effectiveness that cannot be duplicated by public and hospital laboratories. The Company is confident that some of the recent changes made by the Ministry of Health which reduce laboratory usage, while increasing laboratory operating costs, will be taken into consideration when a new laboratory fee schedule is introduced in May, 1977.

In fiscal 1976, the Health Care Services Division extended its efforts in "Occupational Health" services with the acquisition of two Industrial Medical Clinics in the Toronto area. Gross revenues were up over 50% and further significant increases are expected in 1977.

Revenues and profits of the laboratory supply division continued to improve during the year despite the lengthy hospital strike in the Province of Quebec, where the laboratory supply division is headquartered.

During the latter part of 1976, the Company initiated an active program to seek opportunities for diversification in related businesses as well as expansion of existing businesses. In January, 1977, the Company purchased a small clinical laboratory business in New York State. The purchase, subject to licensing approval, will be the initial entry of MDS Health Group into the larger U.S. laboratory market.

The purchase by the Company of 482,219 of its own shares in December, 1975 resulted in a 30% improvement in earnings per share from 46¢ to 60¢ even though net earnings increased by 4%. During the year the company paid its first dividend on common shares of 10¢ per share.

The Board of Directors accepted with regret the request of Dr. J. C. Nixon to be replaced as one of the medical professionals on the Board. We are most grateful for the significant contribution Dr. Nixon has made as a Board member and are pleased that he will continue his full-time association as Medical Director of MDS Laboratories Limited. Dr. L. R. Harnick was appointed a Director to replace Dr. Nixon. Dr. Harnick is a practising radiologist, Professor of Radiology at the University of Toronto, Past President of the Ontario Medical Association and is currently Treasurer of the Canadian Medical Association.

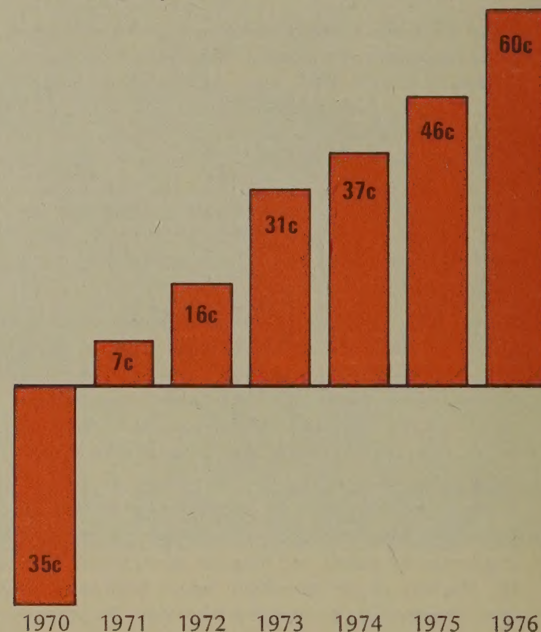
MDS is fortunate to have a group of dedicated employees and consultants, and on behalf of the Board of Directors I would like to thank them for their continuing efforts in 1976.

January 27, 1977

W. G. Lewitt
President

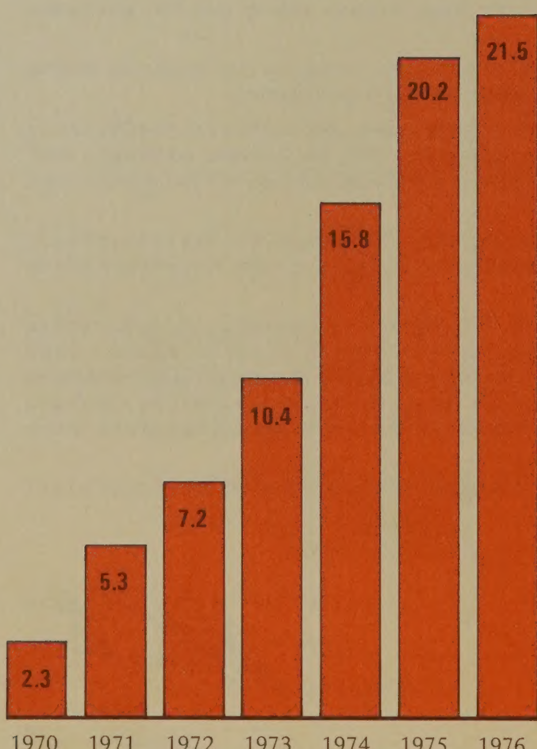
SEVEN YEARS OF GROWTH

Earnings per Common Share†

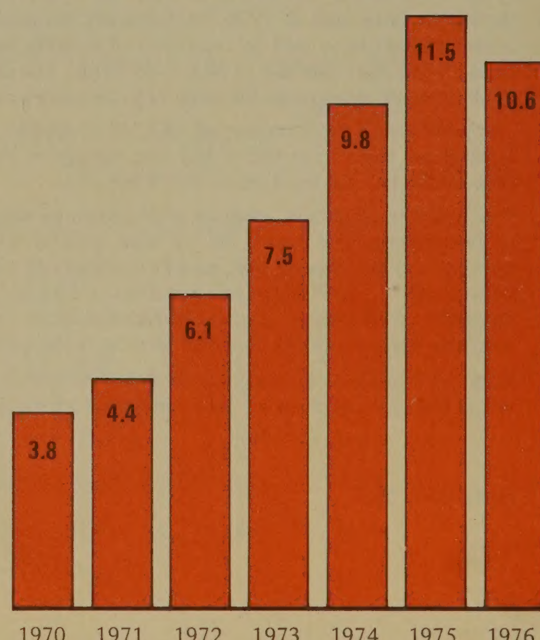


† Before extraordinary items

Revenues in Millions



Total Assets in Millions



WHAT IS MDS?

Canadians enjoy one of the finest health care systems in the world, a system developed through the co-operative efforts of many people, both in the public and private sectors.

Physicians and other health professionals are the cornerstone and the nucleus of any health care delivery system. MDS Health Group Limited is an investor-owned Canadian company dedicated to a supportive role in the diagnosis of disease and the care of people.

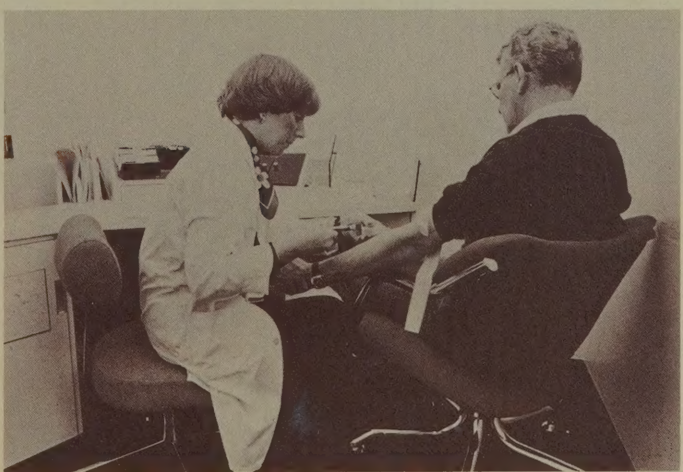
Since 1969, MDS has established a position in the following areas:

Diagnostic Medical Laboratory Services
Diagnostic Laboratory Supplies
Occupational Health Care Services
Medical Facilities Development Services

Three principal factors — quality, service and care — are the foundation for MDS Health Group's rapidly developing position of leadership.

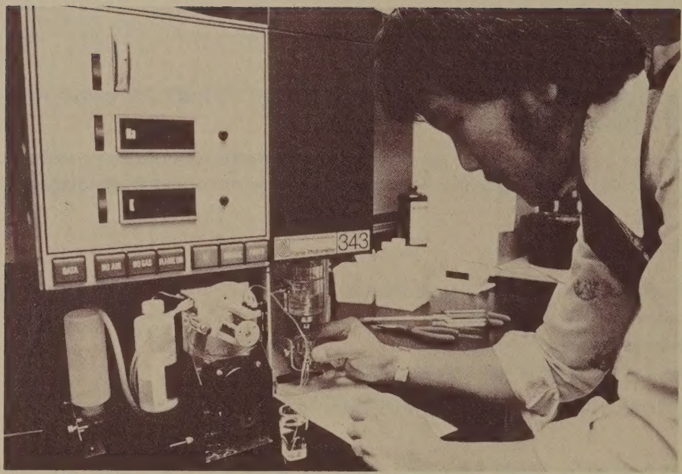
MDS has over 900 employees in Ontario and Quebec — people who care about the patient, the physician and the standards of excellence of MDS products and services.

DIAGNOSTIC MEDICAL LABORATORY SERVICES



Over 1,000,000 patients yearly receive diagnostic medical laboratory services through the 100 licensed laboratories and patient service centres operated by MDS Laboratories in Ontario and Quebec. In addition MDS Laboratories have adapted their services to meet the special needs of many hospitals, institutions and physicians in both urban and rural areas. A prime example of this is the establishment of special courier systems to service remote areas.

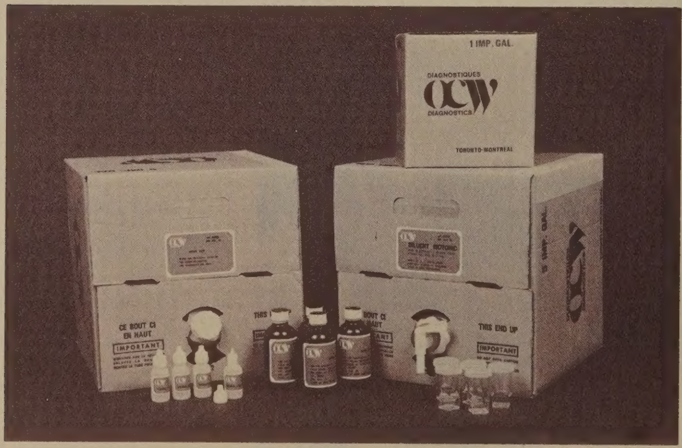
MDS anticipates continued growth in the provision of diagnostic laboratory services — a field in which it has a leading position.



DIAGNOSTIC LABORATORY SUPPLIES

MDS is a manufacturer and distributor of diagnostic products and supplies through its subsidiary operations, Otto C. Watzka & Co. Ltd. and OCW Diagnostics.

These operations give the company an established position in a rapidly expanding field.



MEDICAL FACILITIES DEVELOPMENT SERVICES

MDS, through its wholly-owned subsidiary, MDS Professional Services Limited, has established itself as one of Canada's authorities in the design and development of medical and dental facilities. Since its inception in 1973, MDS Professional Services Limited has assisted hundreds of doctors in communities throughout Ontario in the planning and development of medical office buildings and community oriented health care facilities.

With completion of the Etobicoke Professional Centre shown at left, MDS has been responsible for the development of more than 250,000 sq. ft. of health facilities.

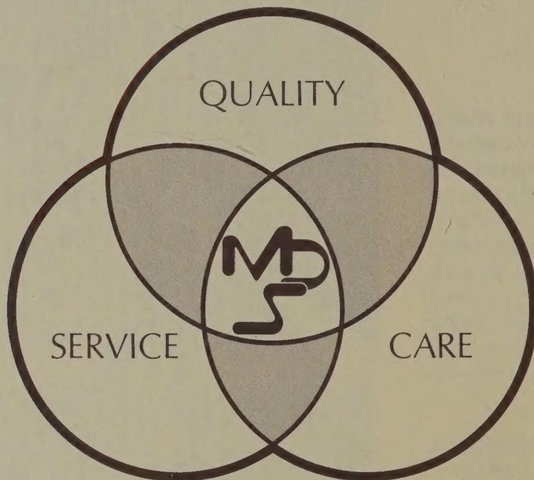
OCCUPATIONAL HEALTH CARE SERVICES

Through its Montreal and Toronto clinics, MDS, assisted by selected medical consultants and examiners, offers pre-employment and comprehensive executive medical examinations. Several thousand employees, associated with more than 200 companies have visited MDS clinics in the last 12 months for such examinations. In addition, these clinics served by 80 nurses, perform more than 30,000 paramedical screening examinations for sixty of the major insurance companies in Ontario and Quebec.

In 1976, MDS acquired the Evans Medical Industrial Clinic in Etobicoke and established a second industrial health clinic in Scarborough. Under the direction of a full-time medical specialist and with the support of numerous consulting practitioners, these clinics provide industrial accident care and occupational health consulting for more than 150 companies.

MDS HEALTH GROUP LIMITED

— a company committed to



QUALITY

- Under the guidance of a Medical Advisory Board and its various sub-committees, the strictest possible quality standards are set and maintained. Implementation of these standards is achieved through the participation of local Medical Directors.
- The highly qualified professional, technical and scientific employees of MDS Laboratories, supported by outside consultants who are recognized authorities in their field, provide the company with a unique capability to discuss cases with referring physicians and assist them in making their diagnoses.

SERVICE

- Through the MDS network of laboratory and patient service centres, clinics and mobile units, patients receive prompt and efficient service.
- The extensive use of MDS operated courier pick-up and delivery vehicles provides laboratory services to all communities in a timely, reliable fashion. Prompt completion of the testing combined with the reporting of results by telecommunications between our various centres, guarantees overnight service for a significant proportion of MDS samples.
- MDS operates, maintains and repairs equipment for the private, public and hospital laboratories that use MDS diagnostic products and systems.

CARE

- Steps are taken by MDS to ensure that any needless waiting is minimized and that the patient is accommodated comfortably in all patient service centres and clinics. A house call service is provided at the request of physicians for patients unable to come to our centres. The people of MDS care about the patient's convenience and are conscious of the value of the patient's time.
- All services are adapted as much as possible to meet the specific requirements of the physicians and other health care professionals in each community. MDS is dedicated to its role of support and assistance in the diagnosis of disease and care of patients.
- MDS also cares about the costs of health services and the expenses of the taxpayers. For several years MDS has provided information to physicians in Canada to assist them in the proper use and interpretation of diagnostic procedures and results. "Topics in Laboratory Medicine" is distributed free of charge to over 8,000 physicians across Canada. By introducing automated testing facilities and more efficient operating procedures, MDS has been able to absorb much of the escalating costs of performing laboratory procedures without compromising on its high level of quality and service — direct savings for the taxpayers in the communities we serve.

MDS HEALTH GROUP LIMITED
(Incorporated under the Laws of Ontario)

CONSOLIDATED STATEMENT OF INCOME

Year ended October 31, 1976 (with comparative figures for 1975)

	1976	1975
Gross revenues	$21,533,715	$20,157,515
Less discounts	1,663,687	1,511,990
Net revenues	19,870,028	18,645,525
Operating costs before the following:	17,139,913	15,960,733
Depreciation and amortization	395,335	353,775
Interest expense – long term debt	229,486	179,363
– other	185,896	142,184
	17,950,630	16,636,055
Income before income taxes, minority interest and extraordinary items	1,919,398	2,009,470
Provision for income taxes	936,000	1,005,000
Income before minority interest and extraordinary items	983,398	1,004,470
Minority interest share of loss	58,227	1,488
Income before extraordinary items	1,041,625	1,005,958
Extraordinary items (note 5)	37,950	
Net income for the year	$ 1,079,575	$ 1,005,958
Earnings per common share:		
Before extraordinary items	$0.60	$0.46
For the year	$0.62	$0.46

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended October 31, 1976 (with comparative figures for 1975)

	1976	1975
Retained earnings, beginning of year	$ 1,694,759	$ 705,619
Net income for the year	1,079,575	1,005,958
Excess of cost over paid-up capital of common shares purchased for cancellation (note 3 (b))	(243,555)	
Dividends paid during the year		
Preference shares ($0.40 per share)	(16,818)	(16,818)
Common shares ($0.10 per share)	(167,278)	
Retained earnings, end of year	$ 2,346,683	$ 1,694,759

(See accompanying notes)

MDS HEALTH GROUP LIMITED

CONSOLIDATED BALANCE SHEET

October 31, 1976 (with comparative figures as at October 31, 1975)

Assets	Cost	Accumulated depreciation and amortization	1976	1975
CURRENT ASSETS:				
Accounts receivable (note 2)			$ 3,151,785	$ 3,849,438
Inventory, at lower of cost and net realizable value			786,359	1,002,476
Investments in shares of and advances to other companies, at cost less allowance for doubtful realization			162,723	469,816
Future income tax reductions			222,691	148,671
Prepaid expenses			212,892	213,895
			4,536,450	5,684,296
LONG TERM INVESTMENTS, at cost less allowance for doubtful realization				
Debenture, due November 17, 1980 (note 5 (a)).			124,828	
Investment in shares of and advances to other companies			124,292	157,415
FIXED ASSETS:				
Equipment and furniture	$2,447,457	$1,062,106	1,385,351	1,480,284
Leasehold improvements	1,340,953	581,989	758,964	658,756
	$3,788,410	$1,644,095	2,144,315	2,139,040
Excess of amounts paid over the fair value of the net tangible assets acquired on the purchases of shares and assets, less amortization and write off			3,589,586	3,447,618
Other assets			56,633	40,640
			$10,576,104	$11,469,009

(See accompanying notes)

On behalf of the Board:

W. G. Lewitt, Director
R. H. Yamada, Director

Liabilities and Shareholders' Equity

	1976	1975
CURRENT LIABILITIES:		
Bank indebtedness (note 2)	$ 661,109	$ 1,697,062
Accounts payable and accrued liabilities	1,090,269	1,370,678
Current portion of long term debt (note 2)	675,000	145,000
Income and other taxes payable	795,531	868,481
Current deferred income taxes	229,000	—
	3,450,909	4,081,221
LONG TERM DEBT (note 2)	1,659,565	1,701,500
DEFERRED INCOME TAXES	23,000	12,000
MINORITY INTEREST		58,227
SHAREHOLDERS' EQUITY:		
Capital stock (note 3) —		
Authorized:		
387,000 8% convertible, cumulative preference shares, redeemable at a par value of $5 per share		
3,267,781 common shares without par value (3,750,000 in 1975)		
Issued:		
42,046 preference shares	210,230	210,230
1,672,783 common shares (2,151,752 in 1975)	2,885,717	3,711,072
Retained earnings	2,346,683	1,694,759
	5,442,630	5,616,061
	$10,576,104	$11,469,009

To the Shareholders of MDS Health Group Limited:

We have examined the consolidated balance sheet of MDS Health Group Limited as at October 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
December 30, 1976.

Clarkson, Gordon & Co.
Chartered Accountants

MDS HEALTH GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended October 31, 1976 (with comparative figures for 1975)

	1976	1975
Funds were provided from:		
Operations —		
Income before minority interest and extraordinary items	$ 983,398	$ 1,004,470
Add charges not requiring an outlay of working capital:		
Depreciation and amortization	395,335	353,775
Deferred income taxes	11,000	(37,000)
Funds provided from operations	1,389,733	1,321,245
Net proceeds on sale of pharmaceutical division (note 5 (a))	379,253	
Less applicable working capital and fixed assets sold	(247,680)	
Less portion of sale price satisfied with debenture	(194,253)	
	(62,680)	
Long term debt	600,000	
Issue of common shares	4,062	6,250
Net proceeds from settlement of AGA lawsuit	155,479	
Reduction of debenture receivable	20,000	
Proceeds on sale of fixed assets		91,274
Total source of funds	2,106,594	1,418,769
Funds were applied to:		
Investment in subsidiaries and divisions, less working capital and fixed assets acquired	141,968	
Less portion of purchase price satisfied with the issue of long term debt	(150,000)	
	(8,032)	
Purchase shares for cancellation	1,072,972	
Reduce long term debt over one year	791,935	144,160
Purchase fixed assets	480,272	853,860
Provide for possible loss on investments of a subsidiary company	85,000	
Pay dividends on common shares	167,278	
Pay dividends on preference shares	16,818	16,818
Increase other assets	17,885	30,214
Total application of funds	2,624,128	1,045,052
(Decrease) increase in working capital	(517,534)	373,717
Working capital, beginning of year	1,603,075	1,229,358
Working capital, end of year	$ 1,085,541	$ 1,603,075
Represented by:		
Current assets	$ 4,536,450	$ 5,684,296
Current liabilities	3,450,909	4,081,221
	$ 1,085,541	$ 1,603,075

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 1976

1. Accounting Policies

The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to generally accepted accounting principles and have been applied consistently.

(a) Basis of consolidation
The accounts of all subsidiaries are consolidated on a purchase basis from the date of acquisition.

(b) Fixed assets
Depreciation on major equipment is provided on a 5-year straight line basis and on other equipment, furniture and fixtures on a 10-year straight line basis. Leasehold improvements are amortized over the lesser of ten years or the length of the lease plus one renewal option.

(c) Development and start up costs
Costs associated with development of new products and locations and with the acquisition of new business are expensed as incurred.

(d) Amortization of intangibles
For acquisitions after March 31, 1974, the excess of amounts paid over the fair value of the net tangible assets acquired on the purchase of shares and assets is being amortized over forty years. For acquisitions prior to April 1, 1974 no amounts are being amortized.

(e) Developments
50% of project development fees are recognized at the time a firm financial commitment has been obtained (the point at which a significant portion of the total costs related to the project have been incurred) and the remaining 50% over the construction period. Contract revenue and profits on building projects are recognized using the percentage of completion method. Full recognition is made for losses when they become known.

It is not the company's intention to make long term investments in building projects. The company's investments are classified as non-current assets, except where there is a reasonable expectation of realization within the next fiscal year.

(f) Income taxes
The company follows the deferral method of income tax allocation. Deferred income taxes result from claiming deductions for tax purposes (principally depreciation and amortization) in excess of amounts charged in the accounts. Where the company is virtually certain of realizing a future income tax reduction from a loss carry-forward for tax purposes, the future income tax reduction is recognized in the accounts in the current year.

2. Long Term Debt

	1976	1975
Bank term loans	$1,490,000	$1,120,000
Bank term loan*	321,000	325,000
Bank term loan*	142,500	
7¼% to 10% notes due up to January, 1979	181,065	201,500
Non interest bearing note due Sept. 15, 1983*	100,000	100,000
8% debenture due Oct. 2, 1998*	100,000	100,000
	$2,334,565	$1,846,500
Less portion included in current liabilities	675,000	145,000
	$1,659,565	$1,701,500

*debt of subsidiary companies

The principal amounts remaining to be paid in the next five fiscal years are:

Fiscal years ended October, 1977	$ 675,000
1978	444,000
1979	451,000
1980	395,000
1981	77,000

The bank term loans, represented by demand promissory notes, bear interest at rates from the prime rate to 2½% over the prime rate. Accounts receivable and floating charge debentures of the parent company and two subsidiary companies have been assigned as security for the loans. In addition to the usual banker's conditions, the company has agreed to maintain working capital of $400,000 which is defined to exclude debt incurred on the purchases of businesses that is more than 90 days from maturity.

3. Capital Stock

(a) Issue of common shares
During the year 3,250 common shares were issued for a total consideration of $4,062 on the exercise of employee stock options.

(b) Purchase of shares
In December of 1975, through an offer made to all shareholders, the company purchased for cancellation 482,219 of its common shares. Of these shares 81,447 were purchased from a former director and employee at a price of $2.00 per share and 400,772 shares from other shareholders at a price of $2.20.

The total cost of the shares (including commissions and legal costs) was $1,072,972, which reduced the paid-up common share capital by $829,417 and the retained earnings by $243,555.

The purchase for cancellation reduced the authorized share capital from 3,750,000 to 3,267,781 shares.

(c) Employee stock option plan
Under the employee stock option plan, 64,517 unissued common shares of the company are reserved as at October 31, 1976.

During the year, options to purchase 5,000 shares expired, and options to purchase 3,250 shares were exercised. As at October 31, 1976, 53,634 options were outstanding, 48,634 at $1.25 per share and 5,000 at $1.60 per share. These options are exercisable at various dates up to January 2, 1979.

(d) Other rights to acquire common shares

(i) As part of a bank loan agreement the company issued warrants to the bank to purchase 14,400 common shares at $5 per share exercisable on or before January 30, 1978.

(ii) Preference shares may be converted at any time on a one-for-one basis into common shares.

(e) Dividend restrictions
Dividends on the common shares may only be paid with the approval of the bank.

(f) Earnings per common share
Fully diluted earnings per common share approximate basic earnings per common share for both 1976 and 1975.

4. Acquisitions

During the year a subsidiary acquired two industrial health clinics for a total consideration of $186,000; $36,000 in cash and $150,000 in debt (with payment terms that extend to July, 1981). Of the total purchase price, $71,000 was ascribed to net assets and $115,000 to goodwill.

In addition, the company increased its ownership in a subsidiary company from 53% to 100% with the purchase of all the remaining outstanding shares for a total cash consideration of $21,000. Of the purchase price $5,000 was ascribed to net liabilities and $26,000 to goodwill.

5. Extraordinary items

Extraordinary gains (losses) (no net applicable income taxes) for the year were as follows:

Gain on sale of pharmaceutical division	$ 52,471
Less allowance for doubtful realization	(50,000)
	2,471
Gain on settlement of AGA lawsuit	155,479
Allowance for doubtful realization of investments in shares of and advances to other companies	(120,000)
	$ 37,950

(a) Gain on sale of pharmaceutical division
On November 17, 1975, the company sold the generic pharmaceutical division of a subsidiary company for a total consideration of $379,253; $185,000 in cash and $194,253 in a 5-year debenture bearing interest at the bank prime rate plus 2½% (with quarterly repayments of principal and interest). Of the sale price, $174,253 related to inventory, $100,000 to fixed assets and $105,000 to goodwill.

The after tax gain on the sale, after taking into consideration all the costs of the transaction and including the losses incurred during the year on operations up to the time of the discontinuance of the pharmaceutical business, was $52,471.

It has become apparent that there is some uncertainty that all of the debenture receivable will be collected and accordingly an allowance of $50,000 has been provided.

(b) Gain on settlement of AGA lawsuit
During the year the company concluded an out-of-court settlement with the supplier of an AGA laboratory machine that could not be brought to a satisfactory operational level. In return for $175,000 (including legal and other related costs) MDS agreed to waive its legal suit and the supplier agreed to dismiss its counter claim. The net gain after taking into consideration potential income taxes and related costs was $155,479.

(c) Allowance for doubtful realization of investments and advances
During the year a subsidiary company made the policy decision to divest itself of all investments in building projects. An analysis of these investments indicates that certain disposal losses may occur for which an allowance of $120,000 has been provided.

6. Statutory information

The aggregate remuneration of directors and senior officers (as defined in the Ontario Business Corporations Act) was $331,000 in 1976 ($345,000 in 1975). Included in 1976 is an amount of $21,800 for directors' fees ($19,200 in 1975) and an amount of $47,000 paid to certain directors for consulting services rendered to the company ($45,000 in 1975).

In addition the company made interest free house loans to certain employees, which amounted to $38,500 at October 31, 1976. Each loan is secured by a collateral mortgage.

7. Commitments

Under the premise and equipment leases entered into by the company and its subsidiaries up to October 31, 1976, the companies are obliged to make minimum payments of approximately $770,000 in 1977, $689,000 in 1978, $577,000 in 1979, $374,000 in 1980, $340,000 in 1981 and $236,000 in total over the period 1982 to 1986.

8. Contingent liabilities

A subsidiary has guaranteed bank loans totalling $155,000 in connection with its development activities. As primary security for these bank loans, assets of the development projects have been pledged.

In addition the company is contingently liable for a lease in a development project for a 10-year period at an annual rental payment of approximately $46,000.

9. Anti-Inflation Act

Under the federal government's anti-inflation program, presently scheduled to be in force until December 31, 1978, the company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. Management is of the opinion that the company is in compliance with the requirements of the anti-inflation legislation.

SEVEN YEAR FINANCIAL SUMMARY 1970-1976

	Years ended October 31, (THOUSANDS)						
	1976	1975	1974	1973	1972	1971	1970
STATEMENT OF INCOME							
Gross revenues	21,534	20,158	15,753	10,428	7,203	5,335	2,332
Income (loss) before extraordinary item	1,042	1,006	805	667	337	143	(652)
Net income (loss) for the year	1,080	1,006	403	586	624	351	(1,072)
BALANCE SHEET							
Working capital	1,086	1,603	1,229	1,134	687	113	(205)
Fixed assets (net)	2,144	2,139	1,728	977	750	567	574
Other assets (including goodwill)	3,895	3,646	3,618	3,703	3,122	2,749	2,561
Total assets	10,576	11,469	9,769	7,471	6,117	4,353	3,833
Long term debt	1,660	1,702	1,846	1,544	892	1,485	1,682
Shareholders' equity	5,443	5,616	4,621	4,234	3,667	1,944	1,248
SOURCE OF FUNDS (selected items)							
Working capital from operations	1,390	1,321	1,090	819	454	228	(540)
Issue of common shares	4	6	1	66	1,000	–	–
Issue of preference shares	–	–	–	–	–	275	–
Issue of long term debt	600	–	425	700	–	–	799
APPLICATION OF FUNDS (selected items)							
Purchase of fixed assets	480	854	987	380	297	164	481
Investment in subsidiaries and divisions	(8)	–	351	335	140	4	460
Dividends on common shares	167	–	–	–	–	–	–
Dividends on preference shares	17	17	17	19	22	–	–
Reduction of long term debt	792	144	204	248	603	203	18
Purchase of shares for cancellation	1,073	–	–	–	–	–	–
PER COMMON SHARE ($ per share)							
Earnings (loss) before extraordinary item	.60	.46	.37	.31	.16	.07	(.35)
Earnings (loss) after extraordinary item	.62	.46	.18	.27	.30	.19	(.57)
Number of shares outstanding at end of period (000's)							
Preference	42	42	42	42	55	55	–
Common	1,673	2,152	2,147	2,146	2,107	1,888	1,877

DIRECTORS AND OFFICERS

Board of Directors

°Dr. W. Anderson
Pathologist, Toronto General Hospital

†*J.W.L. Fordham
Vice-President, Diamond Shamrock Corporation

†A. Grieve
Investment Consultant

°Dr. L. R. Harnick
Chief Radiologist, Toronto Western Hospital

*R. Horner
Investment Consultant

†W. G. Lewitt
President, MDS Health Group Limited

R. M. Warren
Chief General Manager,
Toronto Transit Commission

*R. D. Wilson, Q.C.
Partner, Fasken & Calvin

R. H. Yamada
Vice-President, MDS Health Group Limited

†Executive Committee **Audit Committee* *°Medical Advisory Committee*

Officers

W. G. Lewitt
President
Chief Executive Officer

J. E. Boyce
Vice-President
Organization Development & Personnel

D. M. Phillips
Vice-President
General Manager, MDS Laboratories

E. K. Rygiel
Vice-President
Corporate Development

R. H. Yamada
Vice-President
General Manager, MDS Health Care Services

J. A. Rogers
Secretary-Treasurer
Chief Financial Officer

Head Office:	30 Meridian Road, Rexdale, Ontario M9W 4Z9, (416) 677-7661
Transfer Agents & Registrar:	Guaranty Trust Company of Canada, Toronto-Montreal
Auditors:	Clarkson, Gordon & Co.
Legal Counsel:	Fasken & Calvin
Stock Listing:	Toronto Stock Exchange, Montreal Stock Exchange, Symbol-MHG
Bankers:	Canadian Imperial Bank of Commerce

ANNUAL MEETING

Shareholders are invited to attend the company's ANNUAL AND GENERAL MEETING at 4 p.m., March 2, 1977 in the Alberta Room of the Royal York Hotel, Toronto, Ontario.